

## Message Text

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ACTION EB-04

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FM AMEMBASSY TOKYO  
TO DEPARTMENT OF TREASURY  
SECSTATE WASHDC 7773  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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LIMDIS GREENBACK

PASS FEDERAL RESERVE

E.O. 11652: GDS  
TAGS: EFIN, JA  
SUBJECT: EUROPEAN EXCHANGE CRISIS: BANK OF JAPAN VIEWS

1. SUMMARY: BOJ CONSIDERS CURRENT EUROPEAN EXCHANGE MARKET TURMOIL AS "LOCALIZED" EVENT, AND BELIEVES THAT AS LONG AS DM, DOLLAR AND YEN REMAIN STRONG THERE WILL BE STABILITY IN WORLD MONETARY MARKETS. THAT PROSPECT IS BRIGHT BECAUSE IN THESE THREE COUNTRIES INFLATION IS NOW UNDER MUCH BETTER CONTROL AND THEY WILL ALL HAVE A STRONGER ECONOMIC PERFORMANCE IN 1976. END SUMMARY.

2. SENIOR BOJ FOREIGN DEPT OFFICIAL (TAKESHI OHTA, JUST DEPARTING TO HEAD BOJ'S EUROPEAN OFFICE IN LONDON) TOLD FINATT THAT HE CONSIDERS CURRENT EUROPEAN FOREIGN EXCHANGE MARKET TURMOIL WAS SPARKED WHEN BANK OF ITALY RE-ENTERED EX-CHANGE MARKET IN MARCH. ITALIAN ECONOMIC SITUATION REMAINED VERY WEAK AND EVERYONE KNEW THE LOW LEVEL OF DOLLAR RESERVES. ITALY'S PROBLEMS WERE ALSO AGGRAVATED BY THE

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POLITICAL UNCERTAINTY. AFTER LIRA WAS AGAIN SUPPORTED,

FOREX PRESSURES AND RESERVE LOSSES MERELY RESUMED. THEREAFTER STERLING, ALSO IN A WEAK POSITION, WAS SUBJECT TO THE SAME SET OF FORCES. ACCORDING TO OFFICIAL, U.K. POLICY OF REDUCING INTEREST RATES MERELY COMPOUNDED PRESSURES AND SPECULATION. BOJ NOT SURPRISED WHEN FRENCH FRANC FINALLY CAME UNDER SPECULATIVE ATTACK.

3. OHTA COMMENTED THAT ITALY, BRITAIN AND FRANCE ALL HAVE HAD HIGH RATES OF INFLATION AND TRADITIONALLY HAVE HAD WEAKER ECONOMIC PERFORMANCE THAN OTHER COUNTRIES IN WESTERN EUROPE, ESPECIALLY GERMANY. IN VIEW OF THESE DIFFERENTIALS BETWEEN EC MEMBERS, OHTA BELIEVED THAT PEGGED RATE SYSTEM OF THE SNAKE WAS TOO INFLEXIBLE. THEREFORE WITHDRAWAL OF FRANCE (ALONG WITH UK AND ITALY) FROM SNAKE WAS PROBABLY MORE THAN TEMPORARY.

4. IN REPLY TO QUESTIONS, OHTA SAID THAT HE HAD PERSONALLY BEEN SURPRISED AT VERY STRONG CONFIDENCE IN FRENCH ECONOMIC SITUATION AND PROSPECTS ESPoused BY FRENCH FINANCE MINISTER FOURCADE AT FEB WP3 MEETING AT THAT TIME, OHTA CONSIDERED FRENCH ECONOMY IN CONSIDERABLY WEAKER POSITION AND THAT STRENGTH OF FRENCH FRANC COULD NOT BE SUSTAINED.

5. AS LONG AS THE THREE MAJOR ECONOMIES -- GERMANY, U.S. AND JAPAN -- ALL REMAINED STRONG, THE WORLD COULD CONTINUE TO HAVE INTERNATIONAL FINANCIAL STABILITY, ACCORDING TO BOJ VIEWS. ECONOMIC RECOVERY WAS PROCEEDING AND PROSPECTS OF PRICE STABILITY WERE MUCH MORE FAVORABLE IN THESE THREE COUNTRIES (AS WELL AS SOME EUROPEAN COUNTRIES) THAN FOR MOST OF THE REST OF THE WORLD. DM WOULD REMAIN STRONG WITHOUT DOUBT; GROWING STRENGTH OF DOLLAR ALSO SEEMED ASSURED (ESPECIALLY AS U.S. INTEREST RATES CONTINUED TO RISE AND PSYCHOLOGY, ESPECIALLY IN THE STOCK MARKET, STRENGTHENED). PROSPECTS FOR YEN ALSO LOOK GOOD, SAID OHTA. FOR JAPAN, EXPORT-LED RECOVERY WAS THE TRADITIONAL CYCLICAL PATTERN, FOLLOWED BY INCREASED CONSUMER SPENDING, AND FINALLY BY A REVIVAL IN PRIVATE PLANT AND EQUIPMENT SPENDING. RECOVERY HAD BEEN DELAYED BECAUSE OF DIET PROCRASTINATION IN PASSING THIS YEAR'S BUDGET AND LAST YEAR'S SUPPLEMENTAL. BASICALLY, OHTA SAW ONLY MODEST MOVEMENTS IN THE YEN/DOLLAR

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RATE DURING THE REST OF 1976.  
HODGSON

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## Message Attributes

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